

Tax Cuts in 2024: What You Need to Know

As we approach the new year, many individuals are eagerly awaiting the potential financial relief that comes in the form of tax cuts. The Internal Revenue Service (IRS) recently released adjustments to tax brackets for 2024, which could mean thousands of dollars added to most marginal tax brackets. In this article, we will delve into the details of these changes, how they may affect you, and tactics to help you manage the shifting tax brackets effectively.

Understanding Tax Bracket Changes

The United States operates under a progressive tax system, where income is taxed at gradually increasing rates as it rises. The IRS announces changes to the tax brackets annually, with adjustments pegged to inflation. These updates typically coincide with the federal government's adjustments to Social Security payments through the cost-of-living adjustment (COLA).

For 2024, the IRS has implemented a 5.4% adjustment to tax brackets, which is lower than the 7.1% increase seen in 2023 but still one of the highest in recent years. This adjustment is designed to keep pace with inflation and provide some relief to individuals whose income may not have kept up with rising prices.

RATE	2023		2024	
	SINGLE FILER	MARRIED FILING JOINTLY	SINGLE FILER	MARRIED FILING JOINTLY
37%	>\$578,125	>\$693,750	>\$609,350	>\$731,200
35%	>\$231,250	>\$462,500	>\$243,725	>\$487,450
32%	>\$182,100	>\$364,200	>\$191,950	>\$383,900
24%	>\$95,375	>\$190,750	>\$100,525	>\$201,050
22%	>\$44,725	>\$89,450	>\$47,150	>\$94,300
12%	>\$11,000	>\$22,000	>\$11,600	>\$23,200
10%	≤\$11,000	≤\$22,000	≤\$11,600	≤\$23,200

Source: Internal Revenue Service

Impact on Standard Deduction

In addition to changes in tax brackets, the standard deduction will also see an increase for 2024. For married couples filing jointly, the standard deduction will rise by \$1,500 to \$29,200. Single filers, on the other hand, will experience an increase of \$750 to \$14,600. These adjustments reflect the effects of inflation up until October 2023.

The higher standard deduction can have a significant impact on your tax bill. By taking the standard deduction, you can reduce your taxable income and potentially lower your overall tax liability.

How the 2024 Tax Brackets Might Affect You

To understand the potential impact of the 2024 tax brackets, let's consider an individual filer who earned \$100,000 in both 2023 and 2024 and took the standard deduction in both years. Please note that this example is for illustrative purposes only and does not consider state and local taxes.

	2023	2024	TAX CUT
Income	\$100,000.00	\$100,000.00	
Single standard deduction	\$13,850.00	\$14,600.00	
Taxable income	\$86,150.00	\$85,400.00	
Taxes owed at 10%	\$1,100.00	\$1,160.00	
Taxes owed at 12%	\$4,047.00	\$4,266.00	
Taxes owed at 22%	\$9,113.50	\$8,415.00	
Taxes due	\$14,261.00	\$13,841.00	-\$420.00

Source: Fidelity.com

2023 - 2024 Income \$100,000

Standard Deduction \$12,850

Taxable Income \$87,150

Effective Tax Rate 18.24%

Total Tax \$15,903

In this example, the individual would save \$1,303 in taxes due to the higher standard deduction and a lower effective tax rate. As the tax brackets widen, more of your taxable income is taxed at a lower rate, resulting in potential savings.

It's important to note that while these changes affect everyone, they particularly benefit individuals whose income did not keep pace with inflation in the previous year. According to

the US Department of Labor, real weekly earnings decreased by 0.1% on average from September 2022 through September 2023. These adjustments aim to provide some relief to those whose purchasing power may have been eroded by rising prices.

Tactics to Manage Tax Bracket Changes

Now that we understand the impact of tax bracket changes for 2024, let's explore some tactics to help you navigate these adjustments effectively.

1. Standard Deduction vs. Itemizing

When filing your federal income tax return, you have two options: taking the standard deduction or itemizing deductions. The standard deduction is a preset amount determined by the IRS, while itemizing involves listing all eligible deductions up to a certain limit, which may be higher than the standard deduction.

With the higher standard deduction and new tax brackets in 2024, it may be more advantageous for many individuals to take the standard deduction. If you previously itemized deductions and anticipate that your itemizations will be less than the higher standard deduction for your filing status, switching to the standard deduction could be a sound decision.

2. Bunching Strategy for Charitable Contributions

If you find yourself close to the standard deduction cutoff, employing a "bunching" strategy for charitable contributions could make itemizing deductions more worthwhile. This strategy involves combining all your charitable donations for several years into a single year, allowing you to exceed the standard deduction threshold in that particular year.

By bunching your charitable deductions, you may be able to drop into a lower tax bracket and potentially save thousands of dollars in taxes over multiple tax years. It's essential to consult with a tax professional to determine the best approach based on your specific circumstances and goals.

3. Consider a Roth Conversion

For individuals contemplating a Roth conversion, 2024 might present an opportune time to proceed. A Roth conversion involves converting funds from a traditional IRA to a Roth IRA, potentially incurring taxes on the converted amount. The new tax rates, combined with recent stock price fluctuations, could mean that the converted funds are taxed at a lower rate.

If you anticipate higher tax rates in future years, a Roth conversion for tax year 2024 could be particularly beneficial. However, it's crucial to assess the potential tax implications and consider your long-term financial strategy before proceeding with a conversion.

Conclusion

As we prepare for the new year, the prospect of tax cuts in 2024 brings hope for financial relief to many individuals. The adjustments to tax brackets and the increase in the standard deduction aim to provide some respite for those whose income may not have kept pace with inflation. By understanding these changes and implementing effective strategies, you can maximize your tax savings and ensure a smoother tax season. Remember to consult with a qualified tax professional for personalized guidance tailored to your specific financial situation.

Note: This article is for informational purposes only and should not be considered as financial or tax advice. Consult with a qualified tax professional for personalized guidance.